



## South Carolina Department of Insurance

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**MARK SANFORD**  
Governor

**Eleanor Kitzman**  
Director

August 23, 2006

The Honorable Mark Sanford  
Governor  
Office of State Budget  
1201 Main Street, Suite 870  
Columbia, SC 29201

The Department of Insurance requests additional personnel and operating funds for FY 2007-08 in order to increase the efficiencies in our regulatory responsibilities. No new FTEs are being requested, as we will utilize existing vacant positions. These positions will allow us to meet our statutory requirements for form and rate review and financial examinations. There are no proviso changes being requested that affect our agency. Enclosed please find our Budget Plan for FY 2007-08.

If clarification or additional information is needed, please do not hesitate to notify our office.

Sincerely,

Eleanor Kitzman  
Director

Enclosure

## FISCAL YEAR 2007-08 BUDGET PLAN

### I. EXECUTIVE SUMMARY

A. Section 47-R20-Department of Insurance

B. The Department's statewide mission is protection of the insurance consumer, the public interest, and the insurance marketplace by ensuring the solvency of insurers; by enforcing and implementing the insurance laws of this State; and by regulating the insurance industry in an efficient, courteous, responsive, fair, and equitable manner.

C. The Department's goal is to be recognized internationally as a model agency providing quality service through efficient, effective, and equitable regulation of the insurance industry. The Department strives to be an organization with satisfied customers. This level of satisfaction is achieved by leading dedicated, courteous, knowledgeable, and professional employees. The Department maximizes all available resources for the benefit of its customers in order to insure that we are focused on promoting a competitive market that offers insurance customers a choice of various insurance coverage/needs provided by insurers. The following items requested are necessary to assist and/or continue the Department's efforts in meeting these strategic and long-term goals.

- (1) Activity 1340 & 1336 - Employ two (2) full-time insurance actuaries
- (2) Activity 1346 - Purchase and install an uninterruptible power source (UPS) and generator
- (3) Activity 1340 - Contract experts in the field of catastrophe modeling to evaluate rates

D.

Summary of Operating Budget Priorities for FY 2007-08:		FUNDING					FTEs			
		State Non-Recurring	State Recurring	Federal	Other	Total	State	Fed.	Other	Total
Priority No.: 1	Title: Insurance Actuaries	0	\$254,000	0	0	\$254,000	0	0	0	0.00
Strategic Goal No. Referenced in <u>Item C Above (if applicable):</u> Activity Number & Name: 1340&1336										
Priority No.: 2	Title: Uninterruptible Power Source (UPS) and Generator	\$150,000	0	0	0	\$150,000	0	0	0	0.00

Summary of Operating Budget Priorities for FY 2007-08:		FUNDING					FTEs			
		State Non- Recurring	State Recurring	Federal	Other	Total	State	Fed.	Other	Total
Strategic Goal No. Referenced in <u>Item C Above (if applicable):</u> Activity Number & Name: 1346										
Priority No.: 3	Title: Catastrophe Modeling	\$30,000	\$20,000	0	0	\$50,000	0	0	0	0.00
Strategic Goal No. Referenced in <u>Item C Above (if applicable):</u> Activity Number & Name: 1340										
TOTAL OF ALL PRIORITIES		\$180,000	\$274,000	\$ 0	\$ 0	\$454,000	0.00	0.00	0.00	0.00

E. Agency Recurring Base Appropriation:

State \$ 4,433,912

Federal\$ 0

Other \$ 6,684,800

F. Efficiency Measures: The Department of Insurance has managed to maintain its basic functions despite continued base budget reductions.

G.

Summary of Capital Budget Priorities:			Additional State Funds	Previously Authorized State Funds	Total Other Fund Sources	Project Total
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
Priority No.:	<u>Project Name:</u> Activity Number & Name:	Project No*:	0	0	0	\$ 0
TOTAL OF ALL CAPITAL BUDGET PRIORITIES			\$ 0	\$ 0	\$ 0	\$ 0

\* If applicable

H. Number of Proviso Changes: None

I. Eleanor Kitzman, Director of Insurance \_\_\_\_\_

Contact: Benjamin Duncan, Director of Administration 737-6239

Bobby Troutman, Finance Director 737-6141

## **II. DETAILED JUSTIFICATION FOR FY 2007-08 OPERATING BUDGET PRIORITIES**

- A. Section 47-R20-Department of Insurance
- B. Priority No. 1 of 3
- C. Title: Insurance Actuaries

Allow the Department to employ a credentialed property and casualty actuary and a credentialed life, accident and health actuary.

The goal of this request is to enable the Department of Insurance to perform its statutory functions with regard to form and rate review and financial examinations.

- D. Program II.E Policy Forms and Rates and Program II.A Solvency
- E. Form and Rate review, Activity 1340. Solvency Monitoring, Activity 1336
- F. Detailed Justification for Funding

(1) The Department of Insurance is required to review and approve or disapprove certain insurance policy rate filings (SC Code 38-71-310(B), 38-71-740, 38-73-960, 38-73-330, 38-73-430, and Regulation 69-46 Section 15(C)). The Life, Accident & Health area receives approximately 350 filings per month, while the Property & Casualty area receives approximately 600 filings per month. These filings contain the methodology and assumptions used to determine the rate including actuarial justification for the trends, loss ratio methodologies, and expense assumptions. The Department must determine if the rates are excessive, inadequate, or unfairly discriminatory. Due to the complexity of the data being reviewed, the services of qualified actuaries are necessary. Additionally, as part of the financial examination of domestic insurance companies, the Department must determine if loss and other reserves reported by the insurance companies are adequate for the protection of policyholders and claimants. This function involves the review of actuarial information submitted by the companies and requires the expertise of someone familiar with actuarial methodologies and assumptions. The Department currently contracts with outside actuaries to perform the required functions mentioned above.

(2)

<b>FY 2007-08 Cost Estimates:</b>	<b>State Non-Recurring Funds</b>	<b>State Recurring Funds</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>					
(a) Number of FTEs*					
(b) Personal Service		\$200,000			\$ 200,000
(c) Employer Contributions		\$54,000			\$ 54,000
Program/Case Services					\$ 0
Pass-Through Funds					\$ 0
Other Operating Expenses					\$ 0
<b>Total</b>	\$ 0	\$ 254,000	\$ 0	\$ 0	\$ 254,000
<i>* If new FTEs are needed, please complete Section G (Detailed Justification for FTEs) below.</i>					

(3) Base Appropriation:

State       \$ 1,240,473  
Federal     \$ 0  
Other       \$ 1,846,496

(4) Is this priority associated with a Capital Budget Priority? No\_\_\_\_\_ If yes, state Capital Budget Priority Number and Project Name: \_\_\_\_\_.

G. Detailed Justification for FTEs

(1) Justification for New FTEs

(a) Justification:

(b) Future Impact on Operating Expenses or Facility Requirements:

(2) Position Details:

	<b>State</b>	<b>Federal</b>	<b>Earmarked</b>	<b>Restricted</b>	<b>Total</b>
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Position Title:					
(a) Number of FTEs					0.00
(b) Personal Service					\$ 0
(c) Employer Contributions					\$ 0

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs					0.00
(b) Personal Service					\$ 0
(c) Employer Contributions					\$ 0

(3) FTEs in Program Area per FY 2006-07 Appropriation Act:

State  
Federal  
Other

Agency-wide Vacant FTEs as of July 31, 2006: \_\_\_\_\_

% Vacant 19%

H. Other Comments:

## II. DETAILED JUSTIFICATION FOR FY 2007-08 OPERATING BUDGET PRIORITIES

- A. Section 47-R20-Department of Insurance
- B. Priority No. 2 of 3
- D. Title: Uninterruptible power source (UPS) and generator

Enable the Department to purchase an emergency generator and centralized uninterruptible power source.

This initiative would allow the Department to continue operating in the event of an extended power outage, such as one precipitated by a natural disaster, and would help avoid damage to equipment and programs from inconsistent power levels.

- D. This is an agency-wide initiative
- E. N/A
- F. Detailed Justification for Funding

(1) It is critical that the Department continue to operate in the event of an extended power outage. Currently, the Department has UPS units on individual equipment. These units offer some protection against power blinks, surges, and spikes and basically allow time for units to be shut down properly in case of an extended outage. Since the move into the current building in 2001, workstations and mission critical servers have been damaged by frequent power fluctuations. It has required the services of contractors to rebuild the Oracle database. This has resulted in several days of downtime for employees and clients. The Department is an integral part of the State's Emergency Response Team. Its functions during the recovery phase subsequent to a natural disaster, such as a hurricane, include licensing emergency adjusters to adjust claims, responding to consumer inquiries regarding their insurance coverage, and communicating with insurers, the media, and other state agencies to coordinate the public assistance response. An extended power outage that could be a result of the natural disaster itself would cripple the Department's ability to provide these emergency services on a timely basis. Additional benefits of a centralized UPS system would include filtering incoming power to normal levels that will not cause equipment damage and reducing repair costs, while allowing the Department to provide continuous and reliable online services.



(2)

<b>FY 2007-08 Cost Estimates:</b>	<b>State Non-Recurring Funds</b>	<b>State Recurring Funds</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>					
(a) Number of FTEs*					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0
Program/Case Services					\$ 0
Pass-Through Funds					\$ 0
Other Operating Expenses	\$150,000				\$150,000
<b>Total</b>	\$150,000	\$ 0	\$ 0	\$ 0	\$150,000
<i>* If new FTEs are needed, please complete Section F (Detailed Justification for FTEs) below.</i>					

(3) Base Appropriation:

State	\$ 4,433,912
Federal	\$ 0
Other	\$ 6,684,800

(4) Is this priority associated with a Capital Budget Priority? No If so, state Capital Budget Priority Number and Project Name: \_\_\_\_\_  
\_\_\_\_\_.

G. Detailed Justification for FTEs

(2) Justification for New FTEs

(a) Justification:

(b) Future Impact on Operating Expenses or Facility Requirements:

(2) Position Details:

	<b>State</b>	<b>Federal</b>	<b>Earmarked</b>	<b>Restricted</b>	<b>Total</b>
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Position Title:					
(a) Number of FTEs					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0

(3) FTEs in Program Area per FY 2006-07 Appropriation Act:

State \_\_\_\_\_  
Federal \_\_\_\_\_  
Other \_\_\_\_\_

Agency-wide Vacant FTEs as of July 31, 2006: \_\_\_\_\_

% Vacant \_\_\_\_\_%

H. Other Comments:

## II. DETAILED JUSTIFICATION FOR FY 2007-08 OPERATING BUDGET PRIORITIES

- A. Section 47-R20-Department of Insurance
- B. Priority No. 3 of 3
- C. Title: Catastrophe Modeling

Enable the Department to contract with experts to evaluate catastrophe models submitted as part of insurance rate filings to support the requested rate.

The goal of this project is to enable the Department to properly evaluate data supporting property and casualty rate filings that contain catastrophe components to determine to what extent the rate requested should be granted.

- D. Program II.E. Policy Forms and Rates
- E. Form and Rate Review, Activity 1340
- F. Detailed Justification for Funding

(1) Catastrophe models combine past hurricane activity and climatological influences to forecast future hurricane activity. Utilizing past loss data, property values, development trends and other demographic information, these models also estimate projected losses associated with the modeled hurricane forecasts. Catastrophe models are used by insurers, reinsurers and rating agencies and are the primary driving force behind the dramatically increased cost and decreased availability of property insurance in South Carolina. Insurers have used and will continue to use catastrophe models in setting their rates and the Department cannot reject rate filings that rely upon such models. In 2004, Senate Bill 686 was passed, which provided that the Department “may” evaluate catastrophe models, but provided no funding for such evaluation. Bulletin 2005-01 sets forth the filing requirements for catastrophe model developers. Any such filings should include appropriate data, including models, to support the rate filing. The Department will evaluate the filing and, if necessary, engage experts to assist with that evaluation, and additional information may be requested from insurers to assist in that evaluation. Such additional information may include: (1) indicated catastrophe provision based on actual historical experience data using traditional methodologies and a comparison with the catastrophe modeled provision; (2) an explanation of the reasons for any differences; and (3) information on the model simulations, including, for example, the number of simulated storms by intensity and a description of the company-supplied inputs to the model. We do not have the expertise on staff to properly evaluate the models. To do so, the Department must engage a panel of experts consisting of a meteorologist, an actuary and an engineer with experience in dealing with hurricane issues. These panelists will not only evaluate catastrophe models but will assist the Department in developing the appropriate process for the evaluation. The Department has no general funds to support this project. The Department’s earmarked and

restricted cash funds that would be adequate to meet the needs of this project are designated by statute for other specific programs. The Department believes use of those funds for this project would violate these statutes.

(2)

<b>FY 2007-08 Cost Estimates:</b>	<b>State Non-Recurring Funds</b>	<b>State Recurring Funds</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>					
(a) Number of FTEs*					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0
Program/Case Services					\$ 0
Pass-Through Funds					\$ 0
Other Operating Expenses	\$30,000	\$20,000			\$50,000
<b>Total</b>	\$30,000	\$20,000	\$ 0	\$ 0	\$50,000
<i>* If new FTEs are needed, please complete Section F (Detailed Justification for FTEs) below.</i>					

(3) Base Appropriation:

State       \$ 753,974  
Federal     \$  
Other       \$

(4) Is this priority associated with a Capital Budget Priority? No. If so, state Capital Budget Priority Number and Project Name: \_\_\_\_\_  
\_\_\_\_\_.

G. Detailed Justification for FTEs

(1) Justification for New FTEs

Justification:

Future Impact on Operating Expenses or Facility Requirements:

(2) Position Details:

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0

	State	Federal	Earmarked	Restricted	Total
Position Title:					
(a) Number of FTEs					0.00
(b) Salary					\$ 0
(c) Fringe Benefits					\$ 0

(3) FTEs in Program Area per FY 2006-07 Appropriation Act:

State  
Federal \_\_\_\_\_  
Other \_\_\_\_\_

Agency-wide Vacant FTEs as of July 31, 2006: \_\_\_\_\_  
% Vacant \_\_\_\_\_%

H. Other Comments:

## FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

### I. 2% COST SAVINGS ASSESSMENT

- A. Section 47 R20 Department of Insurance
- B. Activity 1346 Administration
- C. Annual operating funds for the electronic document imaging and workflow system.
- D. Estimate of Savings:

<b>FY 2007-08 Cost Savings Estimates:</b>	<b>General</b>	<b>Federal</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>				
(a) Number of FTEs				0.00
(b) Personal Service				\$ 0
(c) Employer Contributions				\$ 0
Program/Case Services				\$ 0
Pass-Through Funds				\$ 0
Other Operating Expenses	\$88,678			\$ 88,678
<b>Total</b>	<b>\$ 88,678</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 88,678</b>

E. Activity Impact: The Department would be unable to operate the electronic document imaging and workflow system it intends to develop if and when capital reserve funds appropriated this year become available. As part of this project, annual general operating funds of \$100,000 were appropriated to maintain and operate the system. The Department would have to continue to receive and store paper documents.

F.

Summary of Cost Savings Initiatives for FY 2007-08:	FUNDING				FTEs			
	General	Federal	Other	Total	State	Fed.	Other	Total
Initiative Title: Administration	\$ 88,678	0	0	\$	0	0	0	0.00
Activity Number & Name: 1346				88,678				
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
Initiative Title:	0	0	0	\$ 0	0	0	0	0.00
Activity Number & Name:								
TOTAL OF ALL INITIATIVES	\$ 88,678	\$ 0	\$ \$0	\$ 88,678	0.00	0.00	0.00	0.00

## FY 2007-08 COST SAVINGS & ACTIVITY PRIORITY ADDENDUM

### II. PRIORITY ASSESSMENT OF AGENCY ACTIVITIES

- A. Section 47 R20 Department of Insurance
- B. No activity
- C. The Department's activities are statutorily mandated except for the administrative and executive activities which are necessary for the agency to function.
- D. Estimate of Savings: None

<b>Estimate of Savings:</b>	<b>General</b>	<b>Federal</b>	<b>Supplemental</b>	<b>Capital Reserve</b>	<b>Other</b>	<b>Total</b>
<b>Personnel:</b>						
(a) Number of FTEs	0	0	0	0	0	0.00
(b) Personal Service	0		0	0	0	\$ 0
(c) Employer Contributions	0		0	0	0	\$ 0
Program/Case Services	0	0	0	0	0	\$ 0
Pass-Through Funds	0	0	0	0	0	\$ 0
Other Operating Expenses	0	0	0	0	0	\$ 0
<b>Total</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>

- E. Activity Impact: None



F.

[illegible]